

MANAGEMENT'S DISCUSSION AND ANALYSIS

I. Business Review

The PRC economy continued its development by following the macro-control policies during the first half of the year, with national economy still maintained a steady and fast growing momentum. The national gross domestic product ("GDP") realized an amount of RMB6,742.2 billion, representing a year-on-year growth rate of 9.5%, which was 0.2 percentage point lower than the same period last year. The GDP of Sichuan Province amounted to RMB323.16 billion, representing a year-on-year growth rate of 11.6%, which was 1.9 percentage points lower than the same period last year.

The sustained fast growing momentum of the macro economy guaranteed the Group's smooth progress in its principal activities. For the first half of 2005, the Group achieved a sound operating result, realizing a turnover of RMB458,066,000, up 6.49% as compared with the same period last year. The gross toll income from the three expressways of the Group increased by 8.60% over the same period last year, while road maintenance cost and other operating costs of roads decreased as compared with the corresponding period last year. As a result, profit attributable to shareholders of the Company increased to RMB159,827,000, up 38.63% over the same period last year. Earnings per share was RMB0.0625.

1. Principal activities — Operation of Toll Roads

The principal activities of the Group are the holding, operation and management, investment and development of toll expressways within Sichuan Province. Currently, the Group mainly owns three expressways, namely, Sichuan Chengyu Expressway (“Chengyu Expressway”), Sichuan Chengya Expressway (“Chengya Expressway”) and Chengdu Chengbei Exit Expressway (“Chengbei Exit Expressway”). Being the components of the traffic arteries in Sichuan Province, such expressways play a key and special role in the provincial transportation networks.

Operating performance of the expressways for the Period

Toll roads and interests held by the Company	Average	Period	Period growth/	
	daily traffic flow (Number of vehicles)	growth/decline (+/- %)	Toll revenue (RMB'000)	decline (+/- %)
Chengyu Expressway (100%)	14,167	+6.75%	339,041	+6.77%
Chengya Expressway (62.595%)	12,653	+20.65%	111,693	+11.72%
Chengbei Exit Expressway (60%)	20,579	-5.59%	30,842	+18.98%

Thanks to the steady and fast growing macro economy which effectively drove the booming communication and transportation activities in Sichuan Province, both traffic flow and toll income of Chengyu Expressway and Chengya Expressway of the Group for the Period recorded significant increases over the same period last year. However, the traffic flow of Chengbei Exit Expressway appeared to be descending. In spite of this, toll revenue of Chengbei Company had a significant increase over the same period last year and it was mainly attributable to the contribution of toll income from Qinglongchang Bridge which amounted to RMB8,524,000 during the Period. According to the relevant approval granted by Sichuan government and Sichuan Provincial Department of Communications in 2003, Chengbei Company has obtained the operating right of Chengbei Exit Dajian Road and Qinglongchang Bridge, which respectively runs in parallel and is connected to Chengbei Exit Expressway and was transferred from Chengdu Municipal Bureau of Communications upon the completion of the renovation project of Chengbei Exit Dajian Road in August 2004 as the construction of the toll station required coordination and negotiation with relevant Chengdu municipal authorities, Chengbei Exit Dajian Road has not yet commenced toll collection by the end of the Period. Therefore, vehicles using Chengbei Exit Expressway, cargo vehicles in particular, continued its serious traffic diversion, which directly curtailed the traffic flow of Chengbei Exit Expressway. The toll station of Chengbei Exit Dajian Road was completed in the end of July this year and is expected to start toll collection by the end of August 2005. It is believed that the project will be helpful to recovering and enhancing of the traffic flow of Chengbei Exit Expressway as well as increasing the operating effectiveness of the Group.

Operating results of the Company and its major subsidiaries

Unit: RMB'000

	Toll revenue	Operating profit	Net profit/ (loss)
Sichuan Expressway Company Limited	339,041	212,719	177,115
Sichuan Chengya Expressway Company Limited	111,693	40,091	(28,551)
Chengdu Chengbei Exit Expressway Company Limited	30,842	10,419	2,254

2. Other businesses

For the Period, the Company's other revenue and gains from activities other than the operation of toll roads aggregated to RMB23,620,000, an increase of 14.16% from the same period last year.

II. Financial review

Summary of the Group's Results

	For the six months ended 30 June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Turnover	458,066	430,152
including: Toll revenue of vehicles	458,066	420,435
Sales of petroleum products	—	9,717
Profit before tax	182,701	133,702
Net profit attributable to shareholders of the Company	159,827	115,287
Earnings per share (RMB)	0.0625	0.0451

Summary of the Group's Assets

	At 30 June	At 31 December
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	
Total assets	7,953,955	7,882,672
Total liabilities	2,803,534	2,779,924
Minority interests	222,003	231,835
Net assets attributable to shareholders of the Company	4,928,418	4,870,913
Net assets attributable to shareholders of the Company per share (RMB)	1.927	1.904

Analysis of financial results

With regular reviews and necessary adjustments to its financial position under its prudent financial policies, the Group was committed to cutting down operating costs and minimising investment risks, so as to maximise the interests of the Company and shareholders.

The Group's turnover for the Period amounted to RMB458,066,000, representing an increase of 6.49% from the same period last year, of which expressway gross toll income increased by RMB38,147,000 or 8.60% over the same period last year. Profit attributable to shareholders amounted to RMB159,827,000, representing an increase of 38.63% from the same period last year. Earning per shares amounted to RMB0.0625.

The Group's profit attributable to shareholders of the Company for the Period was principally affected by the following factors: (1) a considerable year-on-year increase in toll income of Chengyu Expressway and Chengya Expressway, of which toll revenue of Chengyu Expressway increased by 6.77% to RMB339,041,000 with an increase of 32.40% in net profit over the same period last year, and toll revenue of Chengya Expressway increased by 11.72% to RMB111,693,000, with an operating loss dropping by RMB1,136,000 or 3.83% to RMB28,551,000 from the same period last year; (2) the decrease in expenses as a result of strengthening of internal management. During the Period, cost of other operation decreased by RMB42,968,000 or 35.53% from the same period last year, of which, the cost of road repairs and maintenance decreased by RMB31,523,000 from the same period last year. It was mainly attributable to two reasons, firstly, the completion of maintenance of Longquanshan Tunnel in last year (for the same period last year : RMB12,202,000), and secondly, part of the construction will be arranged in the second half of the year. In addition, Chengyu Energy Company had ceased operation at the second half of 2004, resulting in a decrease of relevant expenses for RMB11,410,000; and (3) toll revenue of Chengbei Company recorded an increase of 18.98% from the same period last year due to the additional revenue from Qinglongchang Bridge.

Liquidity of Capital and Sources of Finance

During the Period, capital expenditure of the Group reached RMB47,739,000, which was mainly financed by income derived from operations. As at 30 June 2005, the Group's interest-bearing loans amounted to RMB2,564,791,000 (*note*) with an average annual interest rate of approximately 4.62%. The gearing ratio of the Group was 35.25% as at 30 June 2005. Details of capital structure together with comparative figures as at 31 December 2004 are set out as follows:

	As at 30 June 2005		As at 31 December 2004	
	Amount	Percentage	Amount	Percentage
	RMB'000	(%)	RMB'000	(%)
<i>(Unaudited)</i>				
The Company's				
shareholders' equity	4,928,418	61.96	4,870,913	61.79
Debt with floating				
interest rate	2,564,791	32.25	2,557,275	32.44
Interest-free debt	238,743	3.00	222,649	2.83
Minority interests	222,003	2.79	231,835	2.94
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Total	7,953,955	100.00	7,882,672	100.00
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Debt to equity ratio		56.89%		57.07%

Debt to equity ratio = (Debt with floating interest rate + interest — free debt) / Shareholders's equity

Note: Interest-bearing bank and other loans

	The Group		The Company	
	As at 30 June 2005 RMB'000 (Unaudited)	As at 31 December 2004 RMB'000	As at 30 June 2005 RMB'000 (Unaudited)	As at 31 December 2004 RMB'000
Bank Loan:				
Pledged	823,600	793,600	—	—
Unpledged	1,523,009	1,538,675	243,574	269,240
Other loans, unpledged	218,182	225,000	—	—
	<u>2,564,791</u>	<u>2,557,275</u>	<u>243,574</u>	<u>269,240</u>
Bank loan required to be repaid within the following years:				
Within one year	327,609	326,416	243,574	242,381
Within two years	450,000	506,859	—	26,859
Within three to five years (the first and final year included)	1,569,000	1,499,000	—	—
	<u>2,346,609</u>	<u>2,332,275</u>	<u>243,574</u>	<u>269,240</u>
Other loans required to be repaid within the following years:				
Within one year	15,909	22,727	—	—
Within three to five years (the first and final year included)	156,818	156,818	—	—
Above five years	45,455	45,455	—	—
	<u>218,182</u>	<u>225,000</u>	<u>—</u>	<u>—</u>
Total of bank and other loans	2,564,791	2,557,275	243,574	269,240
Portion listed as current liability	(343,518)	(349,143)	(243,574)	(242,381)
Listed as long-term liability	2,221,273	2,208,132	—	26,859

Risk of foreign currency

The Group carries out stringent cash management and risk control measures. The Group usually places its cash as short-term deposits in Renminbi. As at the end of the Period, among the Group's debts with floating interest rate, there is a loan of US\$3,999,000 lent by the World Bank which was on-lent through Sichuan Highway Development, the parent company. The Company makes payment of the principal and related interest through purchase of foreign exchange from its parent company with Renminbi at floating exchange rate. Other loans are denominated in Renminbi and repaid from Renminbi income. In addition, the Group purchases foreign exchange for dividend distribution to holders of H Shares. As the fluctuation in foreign exchange rate was insignificant in the Period, the Group's operating results were not materially affected. China People's Bank announced that from 21 July 2005, the exchange rate of Renminbi to US dollar increased by 2% as US\$1 to RMB8.11, which proposed that the existing US dollar loans of the Group will diminish the expense of Renminbi. As there was only small amount of US dollars loans of the Group, it is expected that the fluctuation in exchange rates will not have a material impact on the Group's future results.

Capital Commitment

Details of the Group's capital commitment are set out in note 12 to the condensed financial statements.

III. Business development plan for the second half of 2005

1. Under the development planning of transportation infrastructure of Sichuan Province, the Company will actively identify and select quality road assets in the province, set out financing and investment activities on a safe and effective basis, striving to realize a steady expansion of its principal business.
2. The Company will further press ahead repairs and maintenance projects of Chengyu Expressway as well build a balanced relationship between safe and smooth operation of roads and cost control, to guarantee the smooth progress of the road maintenance projects and further enhancement of the profitability for its core assets.
3. By improving the awareness and capability for better service quality and efficiency, the Company wishes to further enhance the operating and management performance of its expressways. In response to the new conditions and characteristics arising from online toll collection, the Company will in time polish and update its management system and management methods for toll collection to secure good economic benefits.
4. With strict implementation of financial control system covering financial budget management and capital management, the Company will press ahead the overall execution of corporate management and budget management measures for its subsidiaries. At the same time, the Company will improve its audit work to further strengthen both supervision on capital and monitoring force of audit.
5. In light of its corporate culture, namely, "Build a career, altruistic, industrious and innovative morale", the Company will engage itself in forging a learning enterprise, aiming to an improvement in quality of the staff and a better corporate cohesion for its development in the future.